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TO : ALL REGIONAL ADMINISTRATORS

FROM : MARY ANN WYRSCH Mary Ann Wyrsch ERJ
Director
Unemployment Insurance Service

SUBJECT : Department of Labor (DOL) Report,
Reemployment Services: A Review of
Their Effectiveness

The above cited report summarizes the major findings about the effectiveness of employment and training programs for dislocated workers. A key section of the report reviews the findings of relevant studies and demonstrations projects which dealt with profiling of unemployment insurance (UI) claimants and the provision of job search assistance to these claimants. The authors of this report conclude that the findings from all of the demonstration projects are positive and consistent.

The three major findings related to profiling of UI claimants and provision of job search assistance are:

- Job search assistance (JSA) clients found a job more quickly, and the need for UI benefits was reduced.
- The program was cost-effective for the Government.
- Shortening the time to search for and find jobs did not lead to jobs that paid less.

This report was produced by the office of DOL's Chief Economist. It is recommended for use by Regional Office staff and State staff engaged in the implementation of worker profiling and reemployment services systems.

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Attachment

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Reemployment Services: A Review of Their Effectiveness

U.S. Department of Labor
Robert B. Reich, Secretary
April 1994

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I. Introduction

This document reviews what is known about improving the labor market prospects of dislocated workers. There is substantial evidence that certain reemployment services do yield high returns. For example, job search assistance helps dislocated workers find new jobs sooner and saves the government money. Several innovative uses of Unemployment Insurance (UI) funds have also been successful. On the other hand, some current dislocated worker programs have not been effective, and need to be fixed or eliminated.

The stakes of this assessment are substantial. Even with economic recovery, many Americans are having difficulty getting new jobs that pay good wages.

- In 1992 and 1993, more than three in four laid off workers were on permanent layoff — the highest annual proportions since tracking began in 1967.

- The problem of displacement increases during periods of recession and diminishes as the economy moves into recovery. But there is a significant amount of structural unemployment (permanent loss of jobs and difficulty in finding new ones) that persists throughout cyclical swings in economic activity. For example, during the recovery years from 1984 to 1989, an average of 1.8 million full-time workers were displaced each year. During 1990, 2.2 million workers were displaced.[1]

- Workers who are displaced have great difficulty finding new work that pays wages comparable to those in the job they lost. A Congressional Budget Office study found that more than half of displaced workers were still unemployed a year after losing their jobs, or were employed in jobs paying less than 80 percent of their former wages.[2]

- The length of unemployment spells has increased over the last two decades. During the 1970s, an average of 11 percent of the unemployed were out of work for 6 months or longer; in the 1980s, the figure was 15 percent; thus far in the 1990s, it is 16 percent. Last year, more than one in five of the unemployed — 21 percent — hadn't worked for 6 months or more.

It also bears noting that displacement is not confined to a particular socio-economic group. Table 1 shows the characteristics of full-time workers displaced in 1990 compared to the American workforce as a whole. With few a exceptions, the population of displaced workers is similar to the workforce as a whole.

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1 Directly comparable data for 1991 and on are not yet available. We have used data on displacement of full-time workers because data were more readily available for this population. But displacement is a problem for part-time workers as well, and they will also be served by the Administration's displaced worker initiatives.

2 Congressional Budget Office, *Displaced Workers: Trends in the 1980s and Implications for the Future,* February 1993.

The following analysis reviews the effectiveness of what government has done in the past to assist dislocated workers, and what lessons this evidence provides for how it can do better in the future. Section II of this paper examines and summarizes existing research on specific types of employment and training programs of direct or indirect relevance to dislocated workers. Section III then analyzes some of the systemic problems in the way the nation provides reemployment services.

The analysis concludes with a summary discussion of how the design of the Clinton Administration's dislocated worker initiative — the Reemployment Act of 1994 — reflects and incorporates the lessons of previous efforts.

II. A Review of Relevant Research

A wide variety of employment and training programs for dislocated workers have been evaluated in recent years. The sections below review these evaluations. We have attempted to cover all of the credible empirical studies in this area.

Probably the most reliable form of evidence on the post-program labor market effects of employment and training programs comes from random-assignment experimental studies. Such evaluations are based on randomly allocating potential participants between a "treatment group" which is eligible to receive program services, and a "control group" which is not. In a well-designed experimental study, the two groups differ in no systematic way other than their eligibility to participate in the program being evaluated. For that reason, comparing the employment and earnings experience of the two groups after the program is completed yields a straightforward assessment of the difference that the program makes. Statistically significant differences in outcomes are assumed to be the result of the services received by the treatment group.[3] This method produces an estimate of the average change in earnings or employment that results from the program being evaluated.[4]

While random assignment experiments produce extremely useful information, they are difficult and expensive to implement, so comparatively few have been conducted. The literature on randomized experimental evaluations of training programs for dislocated workers is meager. Only two or three of the hundreds of short-term training programs for dislocated workers that have been active over the past decade have been evaluated using a random assignment experiment, and none of the long-term training programs have been evaluated in this way. Because of this, the sections below must occasionally rely on evidence from studies which examine the impacts of training on populations with somewhat different characteristics than dislocated workers.

Profiling and Job Search Assistance

Traditionally, the vast majority of unemployed workers receiving unemployment insurance (UI) benefits have not received reemployment services to help them find new jobs. A 1988 study found that even among those long-term UI recipients who exhausted their benefits — typically after 26

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3 Generally, evaluators are more willing to accept that a difference between a control and a treatment group is real when that difference is *statistically significant.* Statistical significance is determined by a mathematical test which finds the likelihood that a difference would occur through random chance, instead of because of the effect of the services received by the treatment group. Usually, evaluators will put substantial weight on a result if there is no more than a 5% probability that it occurred through random chance. Findings with a 10% chance of such error are also often trusted as useful information about the effectiveness of an intervention.

4 Members of the control group often receive some education services themselves from programs other than the program that is being evaluated. Thus, the experimental results show only the *additional* impact of the particular training program being evaluated beyond any other training programs that are used. This means that the impacts from these studies are generally too low an estimate of the total effects resulting from participation in all training programs.

weeks of joblessness — just 6% were receiving job search assistance more intensive than the simple work registration offered by the Employment Service, and only 1% attended training programs.[5]

A recent series of experiments in five states — Minnesota, Nevada, New Jersey, South Carolina, and Washington — examined the effectiveness of a two-stage combination of "profiling" and job search assistance in reducing unemployment.[6] The profiling stage, which occurs when individuals first claim their UI benefits, uses demographic and work history information to identify those persons who are most likely to remain unemployed for the long-term, and thus have the greatest need for reemployment services. The identified recipients then receive intensive job search assistance and counseling from UI staff.

These demonstrations were conducted as random assignment experiments. The impacts of the experiments are shown in detail in Table 2. The exact results vary, but the general findings are quite consistent:

- **Job search assistance (JSA) clients found a new job more quickly, and the need for UI benefits was reduced.** Those receiving job search assistance found new employment an average of one-half of a week to 4 weeks sooner than similar individuals who did not receive assistance. In most states the unemployed averaged around a one week reduction in the duration of UI benefit receipt.

- **The program was cost-effective for the government.** In each state experiment, the savings in UI payments plus the increase in tax receipts due to faster re-employment were more than enough to pay for program costs. Savings to government averaged around $2 for every dollar invested in targeted job search assistance.

- **Shorter job searches did not lead to jobs that paid less.** Some have argued that mandatory job search leads to workers taking jobs that do not pay as well as jobs they otherwise would have found without the program. There was no evidence that this was the case. In the two experiments where earnings data were available, job search participants not only found a job more quickly, but hourly earnings were similar to those in jobs found by non-participant workers.

Where information on the time pattern of the earnings gains was available, job search participants earned more than controls during their first year or two after receiving help finding a job. After this period, other workers who had not received JSA began to earn similar amounts. The earnings gains produced by JSA are significant but not long-lasting.

The results of the experiments were generally similar, in that all produced significant reductions in UI receipt. However, two experiments — in Minnesota and Nevada — had positive results greater than the others. Programs in these states reduced UI receipt by 4 weeks (Minnesota) and 1.6 weeks

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5 Richardson, Philip et. al., *Referral of Long-Term Unemployment Insurance Claimants to Reemployment Services,* U.S. Department Of Labor Occasional Paper 89-2, 1989.

6 Meyer, Bruce, *Policy Lessons From the U.S. Unemployment Insurance Experiments,* National Bureau of Economic Research Working Paper #4197, 1992.

(Nevada).[7] These states provided the most intensive job search assistance services to their clients, including individual case management. This may partially account for the magnitude of the impacts in these states.

Profiling and job search assistance were mandated for all state UI programs in the Extended Unemployment Compensation legislation enacted in 1993. Implementation of this directive will not be complete for several years.

Self-Employment Programs for UI Recipients

Self-employment programs allow unemployed workers the option of income support through the UI system while they start a small business. Some programs also give a small lump-sum payment to the UI recipient to use as seed capital for the new business. Program participants are provided management training and assistance in setting up their business.

In 1987, the Department of Labor launched demonstration projects in Washington and Massachusetts that added a self-employment option to the UI programs in those states. Although the details of the programs differ, they both require enrollees to participate in entrepreneurial training and make use of business counseling in order to receive self-employment allowances or (in the case of the Washington program) a lump-sum payment to help set up their business. The programs were evaluated in a random assignment experiment that compared program participants to a control group who had expressed interest in starting a business but were not allowed to participate in the program.

Self-employment is not for everyone; research indicates that only a small fraction (2% to 5%) of UI recipients are likely to enter these programs. Results from the demonstration projects also indicate that those who do try self-employment are disproportionately better educated, older, and white-collar.

For those who were interested in self-employment, though, the results from these evaluations were quite encouraging:[8]

- **The likelihood of starting a business roughly doubled for those participating in the program.** In both demonstrations about 25% of the control group managed to start their own business, whereas roughly 50% of program participants did.

- **Businesses started by program participants were just as likely to succeed over the first 18 months of operation as businesses started by members of the control group were.** This finding held true for both demonstrations.

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7 Some part, though not all, of the very large effects found in Minnesota are probably accounted for by selection bias in the control group. About a third of the controls were not UI eligible and thus differed from the program participants.

8 Benus, Jacob et. al., *A Comparative Analysis of the Washington and Massachusetts UI Self-Employment Demonstrations,* Abt Associates, Bethesda, Md., November, 1993. Cost-benefit information is not yet available from these evaluations.

- **Program participants were significantly more likely to enter any employment than control group members.** Over the total 18-month followup period, the program increased the total time spent employed (either self-employed or employed by others) by two months in Washington and three months in Massachusetts.

- **In Massachusetts, the demonstration substantially increased total earnings.** Self-employment participants in Massachusetts earned an average of $5,000 more than non-participants in the control group over the 18 months following entry into the program. There were also positive earnings impacts in Washington, but they were not statistically significant.

The NAFTA implementing legislation passed in 1993 allows states to use monies from the UI trust fund to pay self-employment allowances under state-established self-employment programs.

Re-Employment Bonuses For UI Recipients

Re-employment bonus programs pay a reward to unemployed workers who find new employment within a specified time and keep it for some minimum period. Usually the award is around 3 to 6 times the weekly UI benefit amount — about $500 to $1,500, depending on the state and the individual.

Random assignment experiments in Illinois, Pennsylvania, and Washington have found that eligibility for a reemployment bonus can produce significant declines in the time spent receiving UI benefits.[9] Even though only about 10% to 15% of the potentially eligible clients actually made use of the bonus, the average length of unemployment among the entire group of eligibles was reduced by 1/2 to 1 week.

Most of the evaluations found that the average size of the bonus paid plus the administrative costs of the program were about the same as the average UI benefits saved plus the additional tax receipts gained from faster reemployment. Thus, the program paid for itself from the government's perspective. However, the program more than paid for itself from the perspective of society as a whole because of the additional work and wages that it generated.

Some economists have pointed out that a bonus system could draw more people into the UI system, thus driving up government costs. Some unemployed workers are eligible for UI benefits but choose not to receive them, because they expect to be recalled to their old job or find a new job soon. Unless safeguards were built in, bonuses would give these people an additional incentive to claim UI benefits so they could receive a bonus once their new job came through. Fortunately, this issue can be addressed in the design of a bonus system. For example, the eligibility for the bonus could be limited in certain ways (e.g., to those workers who are not recalled to their old job), and the size of the bonus could be capped to prevent an overly large incentive for "gaming" the system. (This is the approach taken in the Reemployment Act.)

9 Meyer, Bruce, *Policy Lessons From the U.S. Unemployment Insurance Experiments,* National Bureau of Economic Research Working Paper #4197, 1992; Decker, Paul and Christopher O'Leary, *An Analysis of Pooled Evidence From the Pennsylvania and Washington Reemployment Bonus Demonstrations,* Unemployment Insurance Occasional Paper 92-7, U.S. Department of Labor, 1992.

Short-Term Training Programs for Dislocated Workers

Short-term (3 to 6 month) skills training does not appear to have been very successful in producing earnings gains for dislocated workers. In three studies, two of which were randomized experiments, workers offered relatively short-term training plus job search assistance showed no significant increase in earnings or employment when compared to workers receiving job search assistance alone.[10] This training consisted of 3 to 6 months of either classroom or on-the-job training. The workers did not receive any income support beyond regular UI payments to support their training efforts.

These studies provide suggestive but not conclusive evidence that short-term training may not work for many dislocated workers. In two of the studies the follow-up period was only one year, not long enough for all the effects of classroom training to show up.[11] In the third there was an exceptionally low take-up rate for training — only 15% of workers chose to participate — and this led to problems in determining training effects.[12]

More research would be useful here. This is especially true because short-term training programs for groups other than dislocated workers have proven successful in raising earnings:

- **The San Jose Center for Employment and Training (CET):** Founded in 1968, CET provides 4 to 6 months of intensive vocational training to disadvantaged clients. CET is marked by a tight integration between education and job skills training, with an emphasis on the latter. At entry trainees immediately begin vocational training which teaches them new skills in a job context. CET is also marked by its strong connections to the local business community. In each new community CET enters, an industrial advisory board is set up to assist in skill selection and curricular review. Executives from local firms serve on CET's board of directors.

  CET has succeeded in providing education and job training services for two groups that are particularly difficult to serve — minority female single parents and young high school dropouts. Two randomized experimental evaluations found that CET training created earnings gains averaging thousands of dollars per year for students from these groups.[13] Both evaluations found that CET training was extremely cost-effective, bringing benefits to society about twice its costs.

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10 These results were found in the Texas experiments, the Buffalo Downriver training project, and the New Jersey Reemployment Demonstration project. Leigh, Duane, "An Overview of Existing Evaluation Evidence For the U.S.", in *Assisting Workers Displaced By Structural Change: An International Comparison,* Upjohn Institute, Forthcoming, 1994

11 The Texas experiments had a year follow-up; the Buffalo study tracked workers for 6 months after program completion.

12 Corson, Walter, et. al. *New Jersey Unemployment Insurance Reemployment Demonstration Project,* Unemployment Insurance Occasional Paper 89-3, U.S. Department of Labor, April, 1989.

13 *Evaluation of the Minority Female Single Parent Demonstration: Fifth Year Impacts at CET,* Mathematica Policy Research, 1993; *Jobstart: Final Report on a Program for High School Dropouts,* Manpower Demonstration Research Corporation, 1993.

- **Job Training Partnership Act (JTPA) for Adults:** JTPA is the major Federal training program for disadvantaged adults, enrolling over 300,000 each year. JTPA provides a number of services, including classroom training, on-the-job training, and job search assistance. As of 1993, the average JTPA adult trainee stayed in the program for 4 months.

  A major experimental evaluation of JTPA found that the earnings of adults who participated increased significantly by the second year after completing the program.[14]. Findings were especially strong for women, but men also appeared to benefit. Overall, JTPA increased the earnings of both adult men and women by an average of $850 during the second year after program completion. This represented earnings gains of 15% for women and 10% for men. The most successful services appeared to be job search assistance (JSA) and on-the-job training (OJT) — adults designated for these services averaged earnings gains of over $1,000 per year.

  The evaluation also estimated that JTPA produced social benefits 50% greater than its costs. These large benefits were produced within just two and a half years after clients enrolled in the program.

The economically disadvantaged clientele of these programs was generally poorer, younger, and less well educated than most dislocated workers, so these results cannot simply be generalized to dislocated workers. In addition, the positive impacts of these programs may be partly due to the job search assistance they provide, which is not a form of training. But their success does suggest that well-implemented short-term training can produce benefits for certain workers.

Long-Term Training Programs for Dislocated Workers

There are no random-assignment evaluations of the effectiveness of long-term (1 year or more) classroom training for dislocated workers. But evidence on returns to post-secondary education suggests that long-term training is a sensible approach for many dislocated workers.

No long-term training programs for dislocated workers currently exist that are directly comparable to the proposal in the Reemployment Act, and the evidence is scant even on indirectly comparable programs. The evidence on the Trade Adjustment Assistance (TAA) program is a case in point. TAA is a major supplier of long-term training to workers displaced by trade, and two evaluations of it have recently been completed.[15] Unfortunately, these evaluations have not been able to reliably determine training impacts:

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14 Bloom, Howard S. et. al. *The National JTPA Study: Overview of Impacts, Benefits, and Costs of Title II-A,* Abt Associates, February, 1994.

15 About half of workers enrolled in the TAA program receive training, and the training lasts for an average of 66 weeks. Workers are supported during training by both their UI payments (until these are exhausted) and up to a year of long-term income support provided by the TAA program. Corson, Walter et. al. *International Trade and Worker Dislocation: Evaluation of the Trade Adjustment Assistance Program,* Mathematica Policy Research, April, 1993. It should be noted that the design of the TAA program differs substantially from the proposed new system in the Administration's Reemployment Act. Thus, results from TAA evaluations are not directly applicable to the proposed new reemployment system. These design issues are discussed in the next section.

- A Mathematica study found that TAA trainees had lower earnings over a 3-year period than other dislocated workers who did not receive training.[16] It is difficult to know how to interpret this, since researchers found that trainees were a self-selected group who were more likely to have made major career changes than non-trainees. This fact in itself would lead to lower earnings. For this reason, the researchers found they could not draw any conclusions on training effectiveness.[17]

- A second evaluation of TAA, by the Office of the Inspector General at the Department of Labor, found that many workers receiving TAA benefits were reemployed at lower wages than they had received at their previous jobs.[18] However, these TAA recipients were not compared to any control or comparison group of dislocated workers to determine if their earnings loss was more or less than would have been expected for a typical job loser. And the evaluation found that half the TAA recipients did *not* receive long-term training.

Also, it should be noted that the design of the TAA program differs substantially from the proposed Reemployment Act.

The evidence is clearer for other forms of long-term education and training. There is a great deal of solid research on the impacts of long-term post-secondary education. The earnings gains that are associated with post-secondary education, and the steady growth in the importance of advanced education, suggest that long-term skill training would be a worthwhile investment for many dislocated workers. The evidence on the earnings impacts of community colleges is especially relevant here, since many government programs deliver long-term training to dislocated workers by contracting with local community colleges to provide vocational courses.[19]

It is well known that a college education is associated with greatly increased earnings and employment prospects. In 1992 the median earnings of males with 4-year college degrees were $36,700, men with 2-year associate degrees earned $30,000, but male high school graduates earned just $22,800.[20]

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16 Corson, Walter et. al., *ibid.* Earnings for the trainees steadily increased over the observation period. In a longer observation period it is possible that they would have had comparable or greater earnings than non-trainees.

17 The researchers stated that "because individuals were not selected randomly to participate in training, we cannot interpret the differences in the employment and earnings of trainees and non-trainees as unbiased estimates of the impact of training on these outcomes." *Ibid,* p. 121.

18 *Trade Adjustment Assistance (TAA) Program: Audit of Program Outcomes in Nine Selected States,* Office of the Inspector General, U.S. Department of Labor, September, 1993.

19 Hansen, Janet, ed. *Preparing for the Workplace: Charting A Course For Federal Postsecondary Training Policy,* National Research Council, Washington, D.C, November, 1993.

20 U.S. Bureau of The Census, *Money Income of Families, Households, and Persons in the United States:* 1992, Current Population Reports P60-184, 1993. Income of men 25 years or older.

There is consensus among economists that advanced post-secondary education and training is becoming more important to economic success.[21] Between 1979 and 1992, the gap in median income between male high school and 4-year college graduates doubled from roughly 40% to about 80%.[22] (Increases in the rewards to education are also taking place in other advanced nations, although they are not as large as those occurring here.)[23]

In recent years a number of studies have examined the returns to post-secondary education in more detail. Here are the key findings:

- **The higher employment and income of college graduates seems to be a result of education — it is not due to pre-existing differences between people who do go to college and people who don't.** College students tend to come from more privileged families or have more innate ability than those who don't go to college. But researchers have estimated that even after adjusting for differences in ability and family background, the average worker with college experience earns about 5% to 10% more per additional year of college courses completed than an otherwise similar high school graduate.[24]

- **Both community colleges and 4-year colleges have similar payoffs per year of education completed.** Community colleges provide mostly vocational education — fully two thirds of community college students major in vocational areas, as opposed to just 5% of those in 4-year schools.[25] Despite this fact, income gains per year of education completed are not significantly different between 2-year and 4-year colleges.[26]

- **Even students who did not complete degrees enjoyed substantial income gains.** Substantial earnings increases appear to result from post-secondary credits whether or not students complete formal degree programs. Even students who dropped out before degree completion show earnings gains commensurate to the number of years that they completed.[27]

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21 Levy, Frank and Richard Murnane, "U.S. Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations", *Journal of Economic Literature,* September, 1992. This literature review outlines the consensus among economists on the fact (though not the causes) of rising education differentials.

22 U.S. Bureau of the Census, Current Population Survey. Statistics refer to males 25 years of age or over. High school graduates are compared to those with a college degree or more.

23 "Earnings Inequality: Changes in the 1980s", in *OECD Employment Outlook,* Organization for European Cooperation and Development, 1993. Freeman, Richard B. and Lawrence Katz, "Rising Wage Inequality: The United States vs. Other Countries." In *Working Under Different Rules,* R.B. Freeman, Ed. New York: Russell Sage Foundation, 1994.

24 Kane, Thomas J. and Cecilia Rouse, *Labor Market Returns to Two and Four-Year College: Is A Credit a Credit and do Degrees Matter?,* Working Paper #311, Industrial Relations Section, Princeton University, January, 1993. Other studies supporting the conclusion that education directly yields earnings gains are Ashenfelter, Orley and Alan Krueger, *Estimates of the Economic Return to Schooling from a New Sample of Twins,* NBER Working Paper #4143, August, 1992 and Card, David, *Using Geographic Variation in College Proximity to Estimate the Return to Schooling,* National Bureau of Economic Research Working Paper #4483, October, 1993.

25 *National Assessment of Vocational Education Interim Report to Congress,* Office of Educational Research and Improvement, U.S. Department of Education, Washington, D.C. 1993.

26 Kane and Rouse, *ibid.*

27 Kane and Rouse, *ibid;* Hollenbeck, K. *Post-Secondary Education as Triage: The consequences of postsecondary education tracks on wages, earnings, and wage growth,* Paper presented at Western Economic Association, San Francisco, 1992.

These studies have not specifically examined the impacts of long-term post-secondary training for dislocated workers. Most of the students who were observed to benefit from long-term education had obtained their education while they were under 30, and had not returned to school for retraining in the middle of their career like many displaced workers do.[28]

But the general implications of the evidence are clear. Long-term post-secondary education brings substantial benefits to students, and this type of education is becoming steadily more important to labor market success. Even a year of post-secondary education — at a community college or a 4-year school — can improve a student's skills enough to make a measurable difference in employment and earnings.

28 At the same time, it should be noted that community college students are older and displaced workers are younger than is generally supposed. According to survey data, more than a quarter of all community college students are still attending college at age 25 or over. And the Congressional Budget Office found that about half of workers dislocated from full-time jobs in 1990 were aged 18 to 34, and the ratio was similar in earlier years. Thus, a substantial minority of displaced workers are comparable in age to the students in the studies cited. Adelman, Clifford, *The Way We Are: The Community College As American Barometer,* U.S. Department of Education, February, 1992; Congressional Budget Office, *Displaced Workers: Trends in the 1980s and Implications for the Future,* February 1993.

III. Problems With the Design of the Current Employment and Training System for Dislocated Workers

The previous section analyzed the evidence on the impacts of particular employment and training programs. But there are also some basic problems with the overall design of the employment and training system in this country. The Reemployment Act attempts to address these problems.

The analysis here is only partially based on evaluation research. Most of the analysis reflects qualitative observations of the system, not precise measurement of impacts from formal evaluations.

The current Federal training and employment services system for dislocated workers is fragmented and overly bureaucratic. We have numerous programs for displaced workers — including separate programs for those laid off due to import competition, for ex-defense workers, former timber workers, and for workers laid off due to the Clean Air Act. Despite all these programs, many displaced workers do not fall into these specific categories and are not eligible for services at all. And because of the fragmented nature of the programs that do exist, even when workers are eligible they may not be aware of it.

At the local level, the complexity of the system means that administrators and applicants often have to fill out numerous forms to access the services available in their community. The unemployed in need of assistance face a confusing task, since they may have to go to many different locations just to find out what services they are entitled to and how to get them.

The current system frequently fails to rapidly deliver reemployment services to unemployed workers. One of the keys to success for reemployment programs is providing services to workers as soon as possible after they have been laid off. This capacity for rapid response was an important element of the successful job search experiments. But our current reemployment system often serves workers only after they have already been unemployed a significant amount of time.

For example, the Trade Adjustment Assistance (TAA) program provides long-term training to displaced workers. But over half of TAA trainees begin their training more than 6 months after they have been laid off. For this reason, income support benefits designed to support them in training often run out before the training is completed.[29]

The fragmented and categorical nature of existing programs for displaced workers contributes to these delays. The TAA program only covers a narrow subset of displaced workers. In order to determine eligibility, there are complex, time-consuming certification requirements, which often delay the start of training and cause workers to run out of benefits early.

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29 Corson, Walter et. al. *International Trade and Worker Dislocation: Evaluation of the Trade Adjustment Assistance Program,* Mathematica Policy Research, April, 1993.

The Unemployment Insurance system lacks a reemployment focus. The UI system has functioned almost completely as an income security system. This is certainly an important role, but it means that the UI system has not generally done a good job at providing services that can lead to reemployment for those who are not recalled to their previous jobs.[30] As noted earlier, in the late 1980s only 6% of workers who had exhausted their conventional UI benefits — which typically last for over 6 months — were receiving job search assistance more intensive than the simple work registration offered by the Employment Service. Just 1% of them attended training programs.[31] While training is not appropriate for all of the unemployed, it is disturbing to find that only a tiny fraction of the long-term unemployed — who clearly have real difficulty finding an acceptable new job — are engaged in it.

Traditionally, the Employment Service has been the major source of public reemployment assistance for dislocated workers. But the Service is stretched thin. Funding for job placement services has declined by about 20% in real terms since 1979, forcing cuts in staffing; at the same time, the number of applicants seeking these services increased some 12% during the 1980s.[32] Individualized assessment and job search services are not generally available through the Employment Service.[33] Many job openings are not listed on its labor exchange, and those that are listed are disproportionately low-skill and low-wage.[34]

The output of training programs often doesn't match the needs of the labor market. Economists at the Bureau of Labor Statistics have examined the skills which training programs provide to their graduates and compared them to the skills that are in demand in the labor market. They found that training programs often turn out graduates in areas where there appears to be no need for them, while ignoring skills which are actually in demand. For example, training institutions turned out 82,000 graduates with cosmetology degrees in 1990 — but the annual number of job openings for cosmetologists expected in the future was only 17,000.

While in some cases training can be useful even if graduates do not obtain a job in the specific field they were trained in, it seems clear that better labor market information could improve the targeting of training programs. If such information was available to program managers designing their curricula, and to students deciding which course to enter, then it would be possible to attain a better match between skills training and the job openings actually available.

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30 This situation has started to change with the passage of the Extended Unemployment Compensation legislation of 1993, which began the process of turning the UI system into a reemployment system. But a great deal of work remains in this effort.

31 Richardson, Philip et. al., *Referral of Long-Term Unemployment Insurance Claimants to Reemployment Services,* UI Occasional Paper 89-2, U.S. Department of Labor, 1989.

32 Kulik, Jane, *The Evolution of the US Employment Service and A Review of Evidence Concerning its Operations and Effectiveness,* Prepared for the Advisory Commission on Unemployment Compensation, February, 1994.

33 General Accounting Office, *Employment Service: Improved Leadership Needed for Better Performance,* GAO/HRD-91-88, August, 1991. Again, this situation is starting to change as the profiling provisions of the 1993 EUC legislation are implemented.

34 Kulick, Jane, *ibid.,* Jacobsen, Louis, *The Effectiveness of The US Employment Service,* Westat Inc., Draft for the Advisory Commission on Unemployment Compensation, February, 1994.

IV. Applying What We Know

The Reemployment Act has been shaped by a review of the evaluation evidence and an analysis of the flaws in the current system. Below are the general conclusions that resulted, followed by the ways these lessons have been incorporated into the Reemployment Act and related legislation.

Conclusion 1: Job search assistance works.

The evidence clearly shows that job search assistance (JSA) pays off for both the unemployed and taxpayers. Unemployed workers find new jobs more quickly, while government benefits from reductions in unemployment insurance payments and increased taxes paid by the reemployed workers.

Accordingly, the Clinton Administration advocated nationwide implementation of targeted job search assistance for workers considered likely to have difficulty finding a new job. This provision was included in the extended unemployment compensation (EUC) legislation enacted in November, 1993. This legislation was modeled after the successful state experiments with profiling and job search assistance discussed above, and establishes the following additions to the current UI system:

- All state UI agencies are required to establish a profiling system which identifies the new UI claimants who are likely to exhaust regular unemployment compensation and who stand to benefit from job search assistance services.

- States must refer claimants identified by their profiling system to JSA and possibly other reemployment services. Claimants are generally required to participate in these services as a condition of receiving UI benefits.

The Department of Labor is working across the nation to help states implement these provisions effectively. The Reemployment Act will substantially augment this effort. The Act will create an advanced labor market information system to provide information on which jobs are in demand in each local area. This will help UI clients with their job search. And the new One-Stop Career Centers that are an important part of the Reemployment Act will provide a single, common point of access to job search assistance resources for unemployed workers.

Conclusion 2: Early intervention is a key to successful programs.

One of the keys to the job search assistance experiments discussed above was their emphasis on providing services as soon as possible after a worker has been laid off. The negative effects of long-term joblessness are well known. Workers may lose their skills, or become so discouraged and demoralized that they are no longer motivated to look for work. Employers may feel that workers who have been unemployed for a long period are undesirable. In addition, workers unemployed over

6 months may exhaust their UI benefits, leaving them in a precarious financial position. Finally, extended unemployment naturally increases income support costs for government. All of these reasons make it imperative that government provide services to the unemployed quickly.

The Reemployment Act sets up state-level Dislocated Worker Units charged with responding rapidly to news of a layoff. These agencies will collect information on current or potential layoffs and begin to provide on-site assistance to affected workers within 5 days of the date they are laid off.

Under the current system, which has a tangle of categorical programs for dislocated workers that each have different eligibility requirements and layers of paperwork, efforts at rapid response are complicated by questions about whether workers are eligible for services. The Reemployment Act consolidates these categorical programs into a single, comprehensive system for serving displaced workers. This will make it easier to provide services quickly to workers who have been laid off.

Conclusion 3: Dislocated workers facing difficult reemployment prospects should have the option of entering long-term training.

The combination of mixed or negative results for short-term training and the increased importance of advanced skills in the nation's economy led the Administration to decide that some displaced workers should have the option of long-term training. Currently, most displaced workers find it difficult to pursue long-term training because their unemployment benefits will run out before an extended course of training is completed. But the evidence on the impacts of post-secondary education indicates that advanced skills, which take extended education or training to develop, are fundamental to economic success.

The new system set up by Reemployment Act will allow dislocated workers, in consultation with employment counselors, to choose the type of training (short-term or long-term) that is appropriate for them. The Act will make long-term training far more accessible than it is now by providing up to a year of retraining payments equal to the workers UI benefit level in order to support some eligible workers in training. Workers with 3 or more years of tenure in their previous job who have been determined to need long-term training will be eligible for a year of support, and workers with 1 to 3 years of tenure will be eligible for 6 months of support.

When the retraining income support is combined with the 6 months of UI benefits unemployed workers are already entitled to, the worker would have enough income support to pursue full-time education for up to a year and a half. Student loans will also help facilitate this training. As noted in the research summary above, even a year of post-secondary education or training can measurably improve students' earnings prospects.

Only a minority of displaced workers are expected to use this provision. Most dislocated workers will be able to use their existing skills in a new job; serious retraining programs are often difficult and challenging; and income support payments will not be high enough to make training an attractive alternative to reemployment.[35] But for those who do need it, mid-career training will be a realistic alternative.

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35 These payments will be made at the UI benefit level. Most workers have a maximum UI benefit about half what they made at their previous job.

Conclusion 4: Reemployment services should make extensive use of the private sector.

Private sector and public sector training should not be mutually exclusive approaches, but complements to each other. Good public programs rely on connections with local businesses to shape their curricula and place their graduates. And a more effective public system of employment services helps private sector firms find skilled workers more easily.

Several successful programs are marked by strong connections to the private sector. For example, the San Jose CET program, a successful short-term training program discussed in Chapter II, has extensive employer involvement in the design and management of its training. CET features employer representation on their board of directors and the use of an Industrial Advisory Board drawn from private firms to help them design their training curriculum.

The Reemployment Act provides for private sector representation at all levels of the new employment services system. Decisions on how to spend Federal training funds provided by the Act will be made at the state and local level, with representatives of the business community playing a major role. At the state level, Human Resources Investment Councils will be established to help manage and design reemployment programs. A majority of the members of these councils will be drawn from private firms. At the local level, the Private Industry Councils (PICs) who help to run JTPA will play an important role in delivering services in all states. Those states which opt to build networks of One-Stop Career Centers will be guided by newly formed Workforce Investment Boards, a majority of whose members will be local CEO's, plant managers, or other senior business officials.

The Reemployment Act also takes a page from the private sector's book by allowing a process of *competitive bidding* to determine who will run the one-stop career centers which deliver Reemployment Act services. States may allow their Employment Service to manage these career centers, or they may contract out this service on a competitive basis. This will allow community colleges, private employment agencies, or other entities to run one-stop centers if they demonstrate that they can provide better, less costly, or more innovative reemployment services. Grantees will be required to meet a strict set of performance standards in order to continue receiving government funding.

Another area of private-sector involvement will be the incumbent worker training funded by the Reemployment Act. States will be allowed to spend a small portion of Reemployment Act funds to provide grants to private firms for the training of their currently employed workers who are in danger of being laid off. Thus, companies who are finding it difficult to compete due to lack of skilled workers will be able to upgrade the skills of their current workers, rather than laying them off.[36]

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36 A survey of manufacturing firms in Michigan who received training grants from the state government is relevant here. The study found that the subsidies did cause the firms to increase the amount of training they provided to their workers, and that this increased training resulted in improved firm productivity. See Holzer, Harry et. al., "Are Training Subsidies for Firms Effective? The Michigan Experience.", *Industrial and Labor Relations Review,* July, 1993.

There is also a substantial amount of research which finds that formal company-provided training increases the earnings of workers who participate in it. See Lynch, Lisa, "the Economics of Youth Training in the U.S.", The *Economic Journal,* September, 1993, for a review of this evidence.

Finally, the Reemployment Act's emphasis on rapid provision of job search assistance puts the focus on getting workers into private sector employment fast, not leaving them dependent on public programs.[37] This is one of many features that distinguish the new reemployment system envisaged by the Act from continental European systems, which often provide benefits of unlimited duration without reciprocal obligations to improve skills and participate in job search.

Conclusion 5: Innovative uses of UI funds can pay off.

The evidence shows that permitting states to use UI funds to pay bonuses to workers who find a job quickly can get the unemployed back to work faster. In experimental tests these bonuses paid for themselves through savings to government. Allowing states to use UI funds to support the unemployed while they try to start a small business can also bring large benefits to the unemployed.

The Reemployment Act authorizes states to use UI funds to pay reemployment bonuses to workers finding new jobs. Safeguards against abuse of this provision are also included.[38] The Act also permanently authorizes states to use UI funds for self-employment assistance, another proven alternative for unemployed workers.[39]

Conclusion 6: There are systemic problems in the current services system for dislocated workers that need to be addressed.

Section III described some failures in our current system. The Reemployment Act responds directly to these problems:

- **Fragmentation in the current system.** The Act integrates 6 separate categorical programs for dislocated workers into a single, comprehensive program. It also facilitates the establishment of one-stop career centers that will provide a common point of access to employment and training services.

- **Lack of a reemployment focus for the UI system.** Each dislocated worker will be eligible for a package of basic services that will include an individualized needs assessment and intensive job search assistance — services that are generally not provided by the current Employment Service. Those who need new skills in order to find new jobs will be eligible for subsidized training. While only a minority of workers will make use of this option, it will certainly be more than the minuscule fraction who can enter training now.

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37 The Act also emphasizes rapid job placement by allowing persons who take new jobs paying significantly less than their previous wages to retain eligibility for Reemployment Act services for up to two years, in case they later find that they need training. In this way, clients are not forced to choose between working and receiving training or other services.

38 Workers cannot collect the bonus if they return to work with their previous employer or work at their new job for less than 4 months. The bonus size is capped at 4 times the weekly UI payment.

39 A temporary authorization of this was included in the NAFTA legislation enacted in 1993.

The Reemployment Act will also set up a sophisticated nationwide labor market information system which will provide data on which types of jobs are expected to be in demand in each local area. This new system will provide more complete labor market information than the Employment Service currently does.

- **Bringing the output of training programs closer to the needs of the labor market.** The new labor market information system established by the Act will help unemployed workers identify which training program is best for them, and will help local program administrators determine what skills should be taught in order to avoid mismatches between the training provided and the jobs available.

Economic change will always be a challenge. But the lessons learned during this comprehensive review of the evidence — lessons incorporated in the Reemployment Act of 1994 — will help create a system that does a better job in meeting this challenge than our current array of programs does. These lessons suggest no panacea for the problem of unemployment. But they do suggest an array of innovative new approaches to reemployment services and common-sense solutions to problems with our current system.

Table 1

Characteristics of Displaced Workers Vs. All Civilian Workers, 1990

Characteristic	Displaced Workers	Civilian Labor Force
AGE		
18 to 34	49%	43%
35 to 44	27	26
45 to 54	16	16
55 to 59	5	6
60 and older	3	7
JOB TENURE		
3 years or less	51%	35%
3 to 4 years	16	15
5 to 9 years	17	19
10 + years	16	30
SCHOOLING		
12 years or less	17%	15%
12 years	39	40
13 to 15 years	28	22
16 + years	16	23
SEX		
Male	61%	55%
Female	39	45
PREVIOUS OCCUPATION		
White-collar	46%	56%
Blue-collar	53	44
PREVIOUS INDUSTRY		
Goods-producing	46%	28%
Service-producing	52	72
RACE/ETHNICITY		
White	87%	86%
Black	11	11
Hispanic	10	8

SOURCES: Congressional Budget Office, *Displaced Workers: Trends in the 1980s and Implications for the Future,* February 1993; tabulations from the March, 1991 Current Population Survey.

Table 2

Impacts of State Profiling and Job Search Assistance Experiments

Experiment	Average change in weeks of UI received	Additional Earnings in First Year After UI Claim	Government Benefit to Costs Ratio
Minnesota, 1988-90	-4.32***	NA	1.9
Nevada, 1988-89	-1.60***	NA	2.4
New Jersey, 1986-87	-.75*	$235	1.8
South Carolina, 1983	-.70*	NA	NA
Washington, 1986-87	-.47*	$292	4.8

NA Data not available.

*** Impact significant at 1% level or better.

* Impact significant at 10% level.

Table shows the difference in various program measures between an experimental group of program participants and a randomly selected control group who did not participate in the program. For example, in Minnesota workers who were randomly assigned to a group which received profiling and job search assistance services collected an average of 4.3 fewer weeks of unemployment benefits than clients who were randomly selected not to receive services.

SOURCES: Corson, Walter, *The New Jersey Unemployment Insurance Reemployment Demonstration Project Follow-Up Report,* Unemployment Insurance Occasional Paper 91-1, U.S. Department of Labor, 1991; Johnson, Esther, ed. *Reemployment Services to Workers Having Difficulty Becoming Reemployed,* Unemployment Insurance Occasional Paper 90-2, U.S. Department of Labor, 1990; Johnson, Terry et. al., *Evaluation of the Impacts of the Washington Alternative Work Search Experiment,* Unemployment Insurance Occasional Paper 91-4, U.S. Department of Labor, 1991; Meyer, Bruce, *Policy Lessons From the U.S. Unemployment Insurance Experiments,* National Bureau of Economic Research Working Paper 4197, October, 1992.